



Entrepreneur and Small Business Institute

Breaking the Lending Code

- Unsecured and Secured
- Lines of Credit
- Owner Occupied Real Estate
- Equipment Loans
- Business Automobile
- Investment Property (Non Owner Occupied)
- Business Credit Cards
- C D Secured Loans
- SBA Secured Loans
- LED Secured Loans

- **Purpose of Loan-** the use of funds is the first indicator of when and how the loan should be
- **Repayment Terms-** length of loan repayment determines payment amount which is essential in evaluating Repayment Ability to Repay.

- Business Loan Application
- Personal Financial Statement
(All owners, principals, and officers signed and dated within last 45 days)
- Management Resume
- History of the Business
- Business Debt Schedule

Items Needed To Apply

- Monthly Performance Income Statement for 12 months
- Business Financial Statements
(Income Statement, Balance Sheets, and last 3 years of Tax Return)
- Interim Financial Statement
(Signed and dated within the last 45 days)
- Business Performance Financial Statement, Balance Sheet, Cash Flow Projections

Items Needed To Apply

- Personal Tax Returns
(most recent 3 years)
- Aging of Accounts Receivables and Payable
(as of the date of the interim financial statements)
- IRS Form 4506 signed for business tax returns of personal schedule C.
- Other

- Personal Investment
- Family and Friends
- Credit Union / Banks
- Micro Lenders
- Venture Capital
- Angel Investors
- Factoring
- SBA Secured Loans
- LED Secured Loans
- Leasing Companies
- Commercial Brokers

Thinking Like a Lender: Requirements for a Business Loan

- ✓ **Character**- determination to pay; tested by hard times
- ✓ **Capacity**- The ability to pay the debt obligations
- ✓ **Capital**- enough funds in business so it can operate; Liquidity
- ✓ **Conditions**- state of the economy and environment
- ✓ **Collateral**- assets that can be pledged to secure loan

Beacon Score- evaluates Late Payment History, Sources of Credit, Residential Types, Outstanding vs limits, Inquiries, etc.

Scores less than 650 get closer scrutiny. Score above 650 are routinely approved subject to loan terms.

Recent payment history- any past dues within the last 12 months.

Public Records- Tax liens, Judgements, Collection Items and Bankruptcies

Loan-to-Value-Ratio- Loan-to-Value ratio compares the amount of a loan you're hoping to borrow against the appraised value of the property you want to buy.

LTV's vary depending on type of collateral:

Residential R/E- no more than 90%

Commercial R/E- no more than 80%

Equipment- no more than 70%

- Loan Structure: Purpose and Repayment Terms
- Repayment Ability: Debt Service Coverage
- Principal Protection Ratio: Loan to Value Ratio
- Credit History: Beacon Score
(Minimum Score 640)

Repayment Ability

- Gross Cash Flow: Determines total cash available to repay loan on a monthly or annual basis, For businesses, this is calculated as follows:
- Total Debt Services: Total amount of loan payment for new and existing loans
- $DSCR = \text{Gross Cash Flow} / \text{Total Debt Service}$.
- This ratio should be no less than 1.00; preferably more than 1.25 times (1.00 times=breakeven).
- Personal Debt to Income: is similar to DSCR; but reversed
 $\text{Total Debt Service} / \text{Gross Income (before taxes)}$; preferably no more than 50%

Higher Risk Industries - Require Stricter UW



- Restaurants/Bars
- Contractors
- Auto, RV, Boat Dealers
- Agriculture/Forest
- Religious Institutions
- Auto Mechanics
- Mobile Home or RV Parks
- Retail
- Taxi Services
- Real Estate Professionals
- Real Estate Developers
- Software Companies
- Hotels
- Pawn Brokers
- Gas Stations
- Convenience Stores
- Trucking Companies
- Dry Cleaners
- Entertainment

Restricted Industries and/or Loan Types

- Start –up Businesses
- Medical Marijuana
- Adult Entertainment
- Ammunition or Weapons Manufacturing
- Bail Bond Co's
- Loan Brokers
- Companies Involved in Gaming or Gambling Activities
- Money Services
- Loans to Businesses that Promote Discrimination or Have Significant Negative Public Reputation

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- Health Organizations
- Small Manufacturing Companies
- Service Companies
(Plumbing, Air Conditioning, etc)
- Professional
- Doctors
- Dentists
- Chiropractors
- Attorneys
- Veterinarians

Questions?



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